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**MINISTER OF FINANCE ADDRESSES NATION
ON ECONOMIC SITUATION ON 23 SEPTEMBER 1970**

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The Minister of Finance, Andres Zaldivar, after a five-hour cabinet session with President Frei, addressed the nation last night over a national radio-TV hookup to discuss the economic situation. Zaldivar divided the talk into three parts: the situation prior to the election, the economic distortions since the elections, and government efforts to alleviate the difficulties.

Zaldivar described the economic situation on September 3 as normal and promising. Data that date indicated increased economic activity in 1970 would reach 5 percent, led by 9 percent in agriculture, 6 to 7 percent in mining, and 4 to 5 percent in industry. Total employment had risen by 6.1 percent between June 1969 and June 1970. The government had taken necessary measures to ensure adequate supply of major food items through March 1971. The financial sector was developing along program lines set by the Government of Chile early in the year. Means of payment had increased 34 percent, and would not exceed the goal of 46 percent growth. Consumer prices had risen 29.5 percent by the end of August and thus the December to December increase for 1970 would be near the projected level of 30 percent. Wholesale price increases through June indicated a lower rate of growth than in 1969. Fiscal sector budget was well under control. Exports through July had grown 16 percent and imports 10.6 percent over the same period in 1969. Net inflow of short and long term capital during the first eight months reach \$230 million. Balance of payments surplus by the end of August totalled \$136 million, indicating the 1970 balance of payments surplus would exceed \$200 million.


Zaldivar maintained that economic distortions since the election have drastically changed this picture. The first major impact of the election was felt on the liquidity position of financial institutions. During the first 14 days of the month the banking system's checking account deposits fell some E920 million. Between September 7 and 17 withdrawals from savings and loan systems totalled about E340 million. Central Bank responded quickly to provide these institutions adequate liquidity in providing banking system with E780 million in new bills and S&L system E133 million up to September 17. This drastically reduced Central Bank currency holdings and forced it to order currency printing

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abroad. In order to prevent capital flight, the Central Bank stopped authorizations for additional travel allowances for Chileans traveling abroad, prohibited advance payment on imports, and required commercial banks to consult with the Central Bank on each request for capital remittance. Capital inflows fell sharply and show no sign of recovery.

The second major impact of the election was felt in the reduction of consumer demand and investment. This effect was sharpened by reduction in credits. Businessmen are selling from stock and have withheld or suspended new orders. They have also used cash reserves to meet labor costs and have slowed down their debt payments, thereby heightening the depressive tendencies in the economy. Business expansion plans have been suspended or stopped. All sectors are affected, but in varying degrees. Foodstuff sales remain normal. Industrial sales of textiles, clothing and shoes have fallen about 30 percent. Durable goods sales such as televisions, radios, and furniture have fallen from 50 to 80 percent. Motor sales have been more critical, falling from some 650 vehicles a week in August to less than 150 a week in September. Private housing construction, which directly employs 40,000 workers, has also been severely affected. Services, which tend to affect low income families, have declined and have produced immediate unemployment. If these tendencies in domestic market continue, they cannot help but affect foreign commerce. Capital inflows since September 4 have been paralyzed and an increasing number of short term foreign credit lines to Chilean enterprises are not being renewed.

The increased monetary emission caused by current situation could lead to short term increase in inflation. Debt payment defaults are also rising. The fiscal budget is being harmed and government revenues will decline sharply if the present situation continues since taxes are not being paid, sales tax collections will decline, and state enterprise revenues are falling. Given the reduced revenues, the Government of Chile should diminish spending at the same time that it faces the necessity to increase spending in order to stimulate the economy. No possibility exists for raising taxes. The government will have to resort to the printing press, which could threaten the basis of the entire economy. Emission will depend upon the length of the current crisis and the need for government action. If downturn does not reverse, the government will also have to extend more credit, which also implies monetary emission.



In discussing the government reaction to crisis, Zaldívar stated that the problems are not caused by economic considerations. Psychological impact from expectations of sharp changes in the economic system is largely to blame. Efficacy of the government measure to avoid unemployment severely reduced in this situation. In other words, monetary emission would soon cause sharp, uncontrollable inflation at the same time that unemployment increases. Workers cannot be quickly shifted to productive activities and credit cannot solve all problems. The demand for durable goods such as housing, furniture and capital goods cannot be revived over short term by government measures. Credit can ease some commercial problems and fiscal expenditure can alleviate situation but they are not a solution. Government financing is the major problem particularly since revenues may decline. Thus emissions are only feasible sources of financing and may have to increase greatly if crisis persists. The future effect of the current difficulties is not yet foreseeable.

The Economic Committee has reached the following conclusions:

- a. Economic situation was stable up to September 4.
- b. Problems since election have caused emergency situation.
- c. First important problem was deposit withdrawals from savings system which, if they had continued, would have paralyzed the country. Liquidity provided by Central Bank has so far not had major inflationary effect, but could subsequently stimulate serious inflationary spiral.
- d. Most important problem, aside from financing, is diminished investment and consumer demand which lead to unemployment. Public sector can ease but not resolve problem. Only major monetary emission could provide significant short term relief. Since such large emissions incompatible with responsible management of economy, credits will be granted only on highly selective basis for most pressing cases.

Postscript: One of the most telling statistics given by Zaldivar is that the Central Bank's reserve of bank notes in mid-August was approximately E800 million and that as of September 17 they were down to only E220 million. He added that the government had ordered bank notes from abroad (England), but that these would not be delivered for 60 days. In other words, there is a possibility of the government running out of bank notes if the situation were to worsen.